

Review: M&A Modeling Retake Exam

Question 1

The intangible assets of a company getting acquired were written up for BOTH book and tax purposes from a pre-deal book value of \$50m to \$60m as part of the acquisition accounting. The company's definite-lived intangible assets are amortized on a straight-line basis over 15 years for both book and tax purposes. Also assume the acquirer has a tax rate of 40%.

Assume the purchase price exceeds the fair value of net assets. What is the impact of the write-up on the goodwill recorded in the acquisition?

A decline in goodwill of \$10m

An increase in goodwill of \$6m

✗ A decline in goodwill of \$6m

An increase in goodwill of \$10m

No impact on goodwill

Question 2

The intangible assets of a company getting acquired were written up for book purposes from a pre-deal book value of \$50m to \$60m but NOT for tax purposes, where the tax basis remained \$50m. Assume that target's definite lived intangible assets are amortized on a straight-line basis over 15 years for both book and tax purposes. Also assume that the acquirer has a tax rate of 40%.

What is value of created Deferred Tax Liabilities as a result of the book write-up and no tax step up?

No new Deferred Tax Liabilities

New Deferred Tax Liabilities of \$4m

New Deferred Tax Liabilities of \$6m

New Deferred Tax Liabilities of \$10m

New Deferred Tax Liabilities of \$50m

Question 3

The intangible assets of a company getting acquired were written up for book purposes from a pre-deal book value of \$50m to \$60m but NOT for tax purposes, where the tax basis remained \$50m. Assume that target's definite lived intangible assets are amortized on a straight-line basis over 15 years for both book and tax purposes. Also assume that the acquirer has a tax rate of 40%.

What is the impact on goodwill as a result of the book write-up and no tax step up?

✗ No impact on goodwill

Goodwill is lower by \$6m

Goodwill is higher by \$6m

Goodwill is higher by \$4m

Question 4

It is January 1, 2017. Glocabe Networks is contemplating the acquisition of competitor Jupiter Networks by issuing stock to purchase target shares (stock purchase). The following details are available: